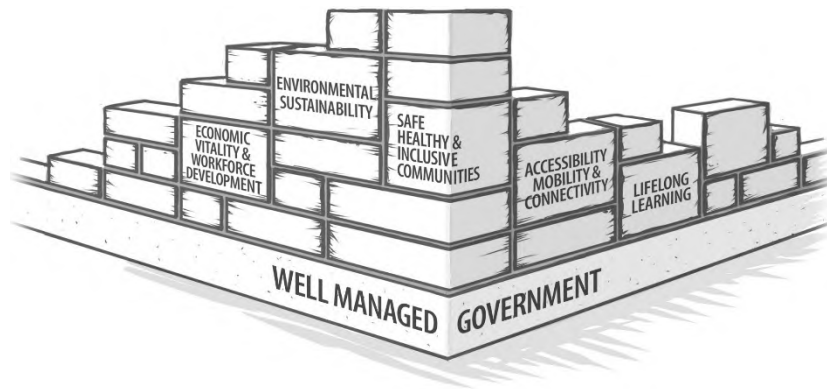


# Coastal Resilience

## Part II: Funding Options

*City Council Presentation  
December 15, 2015*



# Presentation Overview

- The presentation continues last week's discussion on coastal resilience projects
- The presentation will focus on funding options for coastal resilience projects
- No Council action is required

# Resilience

Resilience is the capacity of individuals, communities, and systems to survive, adapt, and grow in the face of stress and shocks, and even transform when conditions require it.



# NORFOLK RESILIENT CITY

## Goal 1

Design the coastal community of the future.

## Goal 2

Create economic opportunity by advancing efforts to grow existing and new sectors.

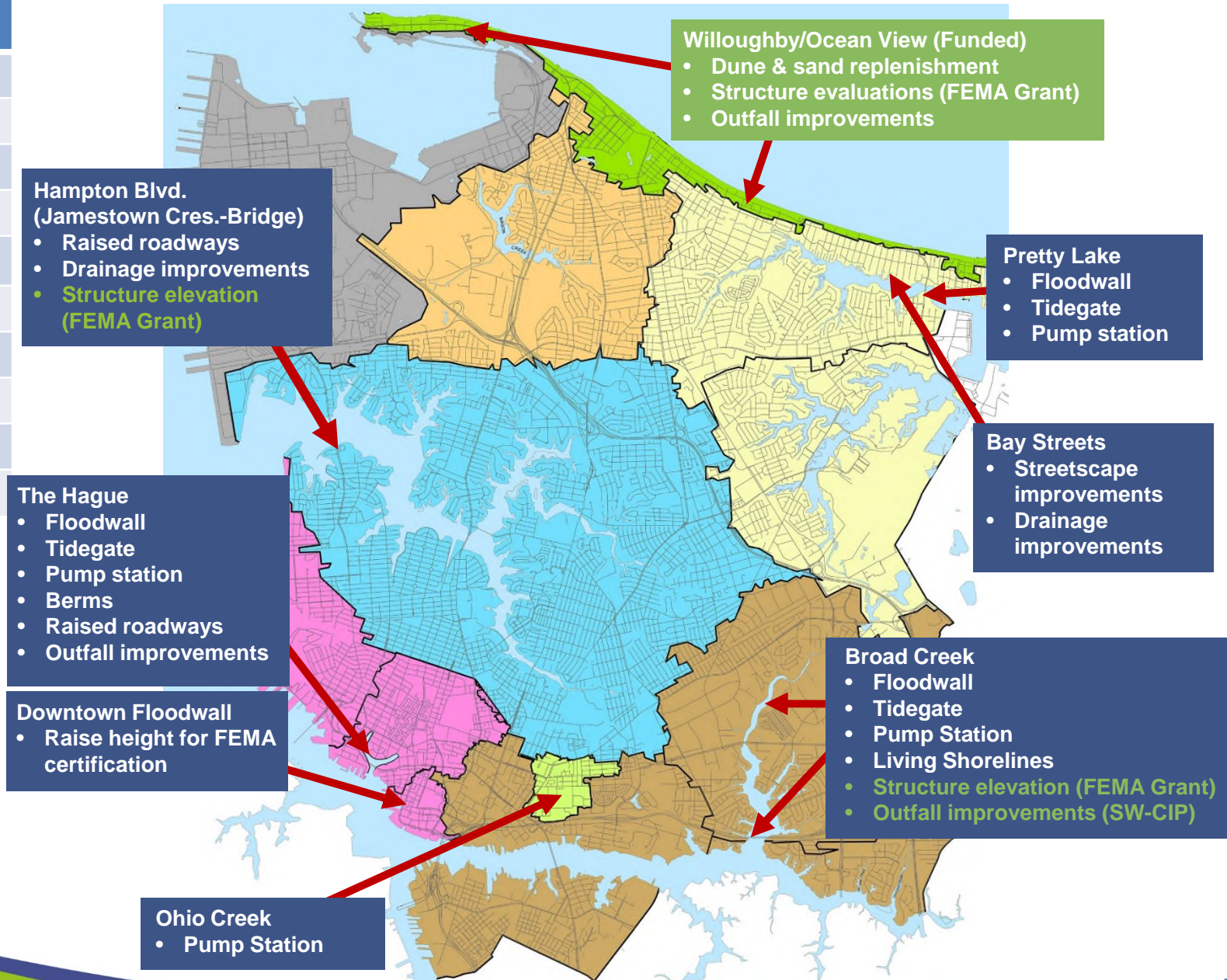
## Goal 3

Advance initiatives to connect communities, de-concentrate poverty, and strengthen neighborhoods.

# Recap: Priority Capital Projects and Costs

## Project Area/Costs

| Area                 | Costs         |
|----------------------|---------------|
| The Hague            | \$60M         |
| Pretty Lake          | \$50M         |
| <b>Sub-Total</b>     | <b>\$110M</b> |
| Downtown             | \$20M         |
| Hampton Blvd.        | \$20M         |
| Bay Street           | \$50M         |
| Broad Creek          | \$80M         |
| Ohio Creek           | \$30M         |
| <b>Overall Total</b> | <b>\$310M</b> |



# Revenue Sources and Financing Options

# Overview

- There is no simple solution to funding projects
- Variety of revenue sources and financing mechanisms are needed

## REVENUE SOURCES

Evaluating a multitude of revenue sources

Real Estate  
Tax

Dedicated  
Fee

Federal  
State

## FINANCING TOOLS

Evaluating a multitude of financing mechanisms

General Obligation  
Bonds

Revenue  
Bonds

Cash



# Three Debt Affordability Measures

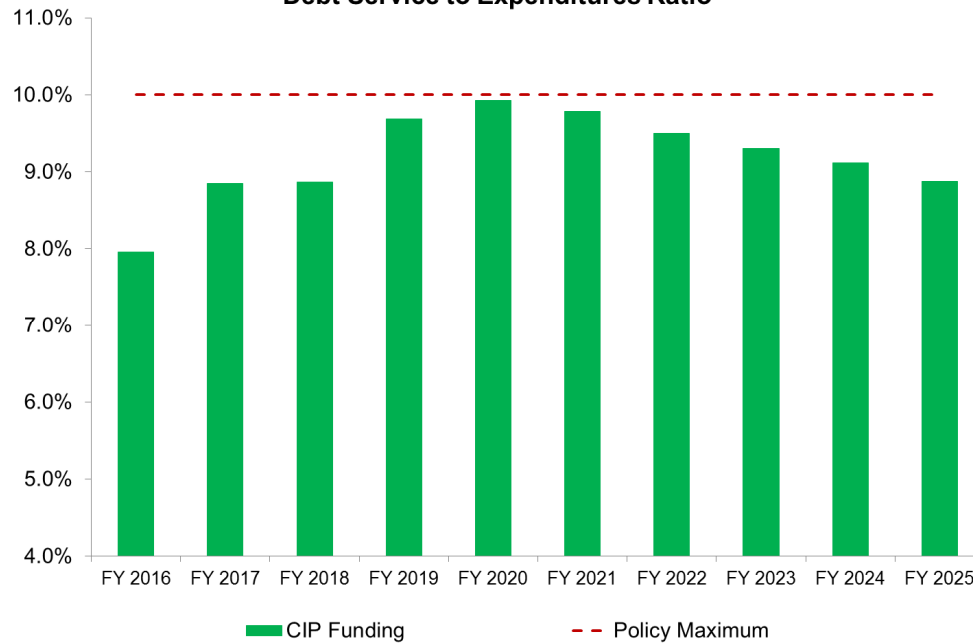
- Virginia Constitution (legal debt limit):
  - Not to exceed 10 percent of the assessed value of taxable real property
- Debt limit/affordability measures:
  - Debt service not to exceed 10 percent of General Fund budget
  - Net debt not to exceed 3.5 percent of the assessed value of taxable property



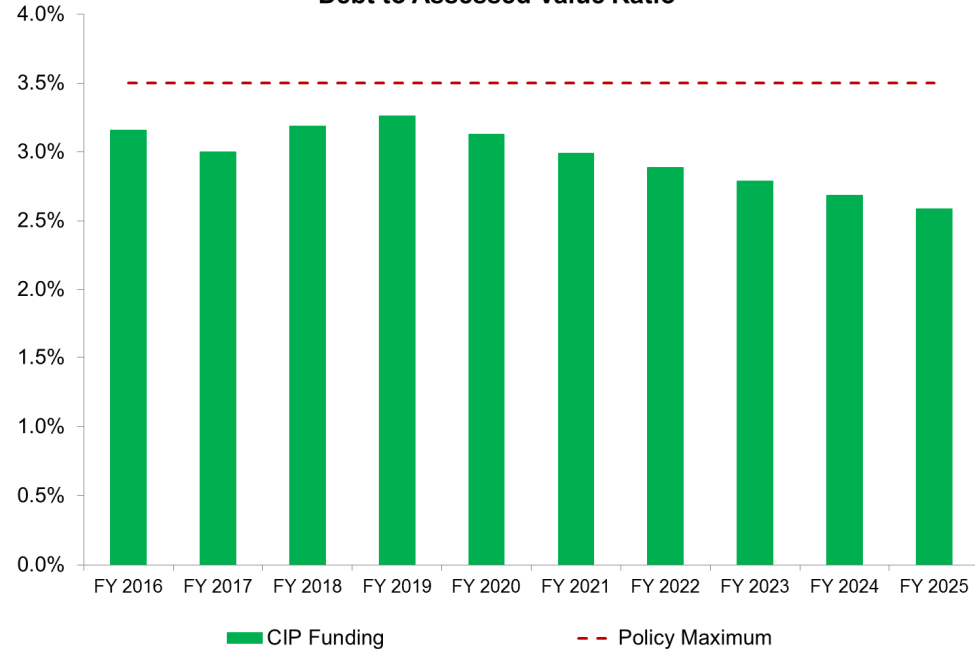
# Two Debt Affordability Measures

Based on Approved FY 2016 CIP

Debt Service to Expenditures Ratio



Debt to Assessed Value Ratio



# Norfolk is one notch away from a “AAA” rating

## GO and Revenue

|         |     |
|---------|-----|
| Moody's | Aa2 |
| S&P     | AA+ |
| Fitch   | AA+ |

# Working Within Our Financial Limitations

- Our ability to raise revenue is limited
- Norfolk's tax rate is the lowest among the cities below that have high fiscal stress
- Norfolk has the second highest percentage of tax exempt real estate in the seven cities

# Revenue Sources: Pros and Cons

|           | Real Estate Tax   | Dedicated Fee   |
|-----------|---|---|
| Debt Type | General Obligation Bonds  | Revenue Bonds   |
| Pros      | Lowest cost of funds  | Excluded from city's debt ratios  |
|           |   | Results in on-going revenue that can be used for Pay-Go funding for additional projects |
| Cons      | Included in city's debt ratios<br><b>(utilizes existing capacity)</b> | Fee must be set to exceed annual debt service requirement (1.25 - 1.50x)                |
|           | Limited debt capacity available in CIP                                | Projects may not fit under existing fee legislation                                     |

# Preliminary Look

# Funding of Preliminary Look

- The focus was on:
  - Project areas (The Hague and Pretty Lake “districts”) and overall citywide projects
  - Real estate tax as a revenue source
  - Dedicated fee as a revenue source
  - General obligation (G.O.) and revenue bonds (20-year debt) as funding mechanisms
- Estimates are theoretical and subject to change based on market conditions and project information

# Theoretical Annual Tax/Fee Increase and Impact to Fund \$10 million Project Cost

| Tax/Fee Impacted Area               | Tax Rate/Fee Increase<br>20-Year Debt | MONTHLY Impact on<br>Average Residential<br>Property Owner | ANNUAL Impact on<br>Average Residential<br>Property Owner |
|-------------------------------------|---------------------------------------|--|---|
| <b>Real Estate Tax (G.O. bond)</b>  |                                       |  |   |
| The Hague                           | 5.0 cents                             | \$17   | \$199   |
| Pretty Lake                         | 3.9 cents                             | \$7  | \$84  |
| Citywide                            | 0.4 cents                             | \$0.75   | \$9   |
| <b>Dedicated Fee (revenue bond)</b> |                                       |  |   |
| The Hague                           | \$220                                 | \$18   | \$220   |
| Pretty Lake                         | \$79                                  | \$7  | \$79  |
| Citywide                            | \$8                                   | \$0.70   | \$8   |

Notes: Estimates are preliminary, subject to change based on market conditions. Amounts are rounded. The real estate tax rate is per \$100 of assessed value.



# Theoretical Annual Tax/Fee Increase and Impact to Fund Project Costs

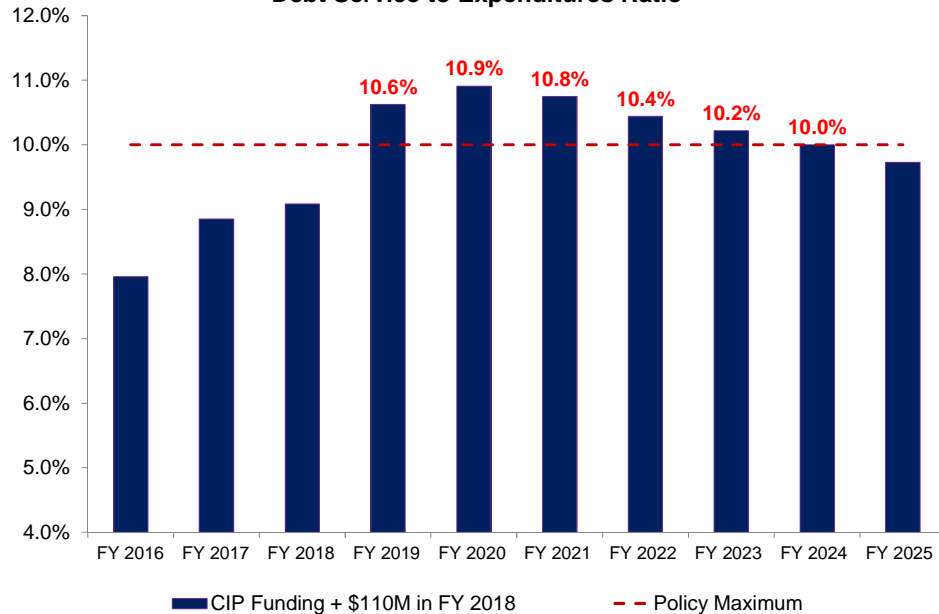
| Tax/Fee Impacted Area               | Estimated Project Cost<br>(in millions) | Tax Rate/Fee Increase<br>20-Year Debt | MONTHLY Impact<br>on Average<br>Residential<br>Property Owner | ANNUAL Impact<br>on Average<br>Residential<br>Property Owner |
|-------------------------------------|---|---------------------------------------|---|--|
| <b>Real Estate Tax (G.O. bond)</b>  |   |                                       |   |  |
| The Hague                           | \$60                                    | 30.0 cents                            | \$99  | \$1,189  |
| Pretty Lake                         | \$50                                    | 19.6 cents                            | \$35  | \$418  |
| Citywide (Hague/Pretty Lake)        | \$110                                   | 4.8 cents                             | \$8   | \$98   |
| Citywide (all projects)             | \$310                                   | 13.5 cents                            | \$23  | \$275  |
| <b>Dedicated Fee (revenue bond)</b> |   |                                       |   |  |
| The Hague                           | \$60                                    | \$1,319                               | \$110   | \$1,319  |
| Pretty Lake                         | \$50                                    | \$393                                 | \$33  | \$393  |
| Citywide (Hague/Pretty Lake)        | \$110                                   | \$87                                  | \$7   | \$87   |
| Citywide (all projects)             | \$310                                   | \$244                                 | \$20  | \$244  |

Notes: Estimates are preliminary, subject to change based on market conditions. Amounts are rounded. The real estate tax rate is per \$100 of assessed value.

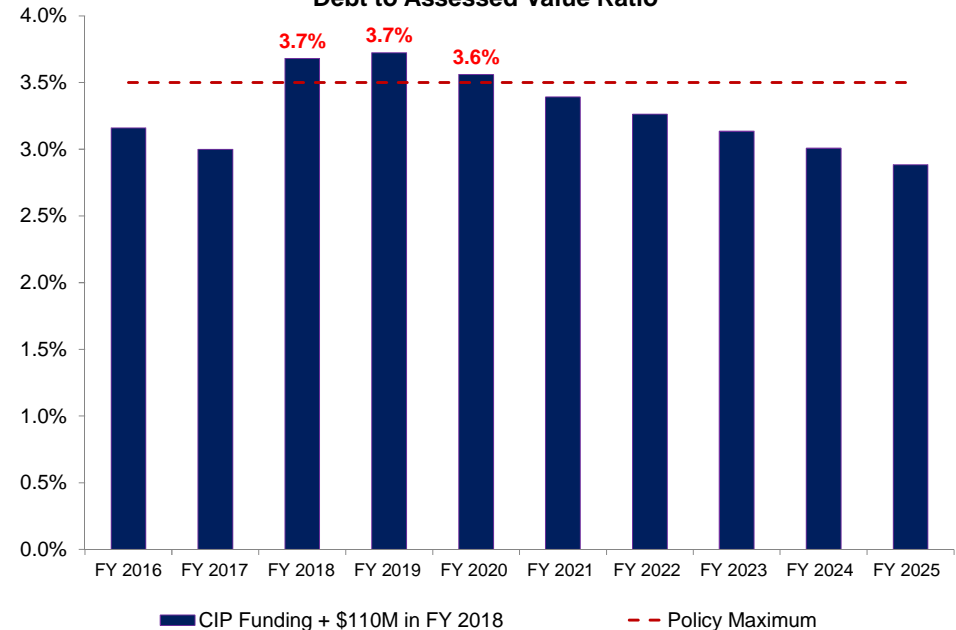
# Debt Ratios with \$110 million of New Debt

- Cost of the resilience projects is significant relative to city's debt ratios

Debt Service to Expenditures Ratio



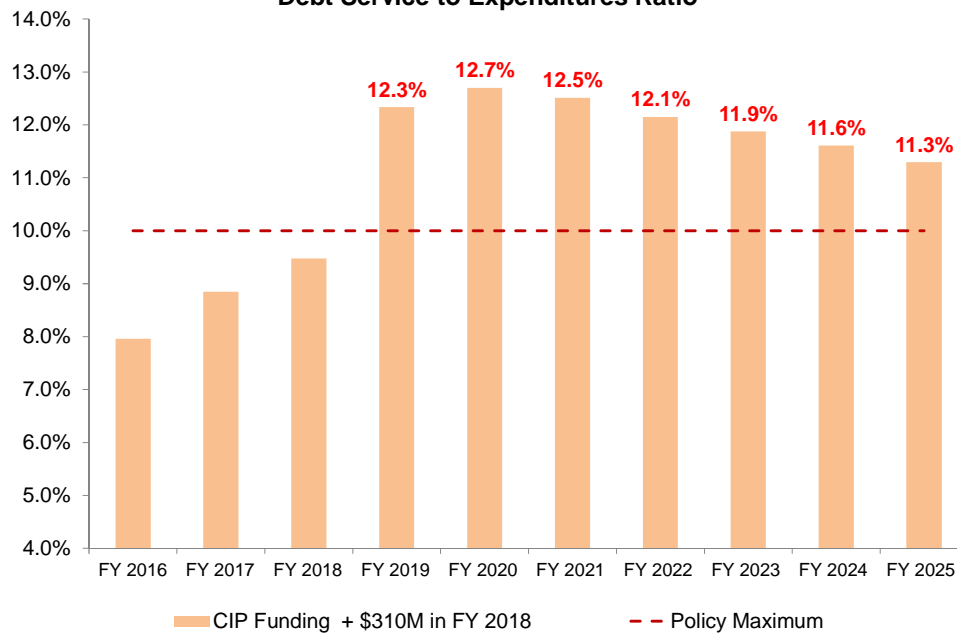
Debt to Assessed Value Ratio



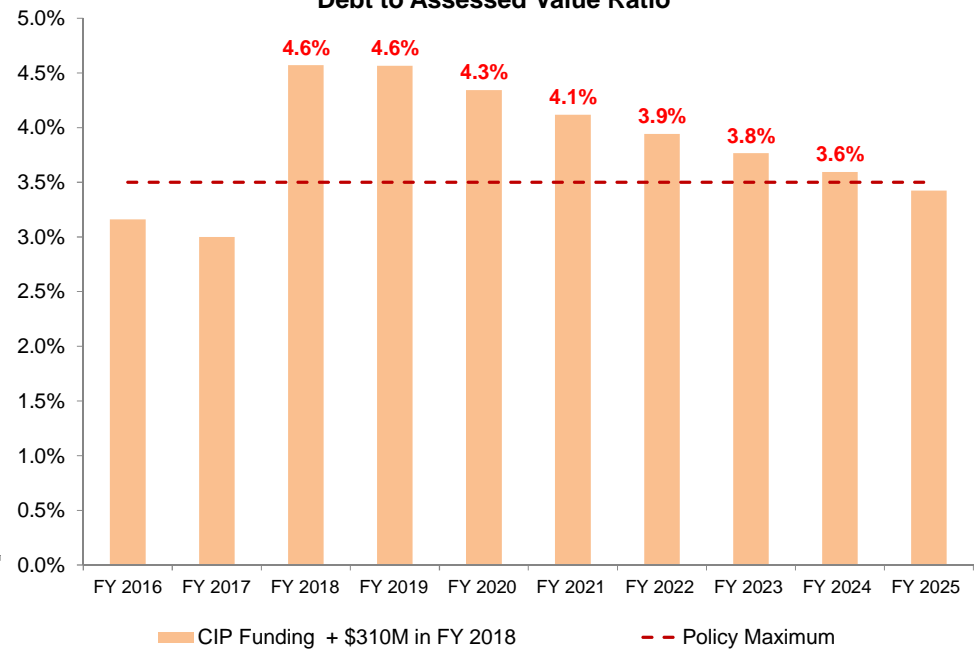
# Debt Ratios with \$310 million of New Debt

- Cost of the resilience projects is significant relative to city's debt ratios

**Debt Service to Expenditures Ratio**



**Debt to Assessed Value Ratio**



# Initial Findings and Conclusions

- The city along with partners and residents continue to search for innovative solutions to be the model of coastal communities of the future
- The city continues to think proactively and creatively as a national leader in addressing resilience
- A variety of financing mechanisms and sources (both local and from outside the city) are needed to address resilience